

KEYNOTE INTERVIEW

Why PE needs to put social impact first



Initiatives focused on enhancing stakeholder welfare can be a valuable route to returns and are already reshaping corporate Japan, according to NSSK's Jun Tsusaka and Kiyomi Matsuda

Q What is the current backdrop to ESG initiatives in Japan? How have attitudes changed over time?

Jun Tsusaka: When ESG first entered the global conversation two decades ago, Japan was largely absent. That has now changed dramatically. We even have the first female prime minister in our history.

In recent years, ESG has gained strong momentum within Japan's private equity industry. Funds are now expected not only to drive business revitalisation and succession planning – thereby supporting national economic resilience – but also to address

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environmental, social and governance priorities as part of value creation.

Because Japan was a late adopter, the PE industry here has avoided many of the early pitfalls seen overseas. We have had the benefit of hindsight, and we can now focus on evidence-based, strategically designed ESG integration, rather than box-ticking. ESG is increasingly driven by corporate philosophy, instead of solely in response to LP requirements.

This shift is also reflected at the

industry level. In 2023, the Japan Private Equity Association (JPEA) established an ESG committee to promote ESG initiatives among members. It's an effort we have supported from its inception.

Building on that momentum, our 2025-26 ESG report, *Introducing Alpha ESG*, sets out ways to embed ESG from due diligence through to exit, with KPIs that tie directly to value creation.

We have formalised this as a framework that connects people centric operational improvements to measurable valuation 'impact', moving the discussion decisively beyond compliance to performance.

Analysis

Kiyomi Matsuda: One current industry initiative in this vein is a JPEA survey examining the relationship between job creation and DEI.

Employment growth in the PE industry surged from 1.8 percent in FY2022 to 17.9 percent in 2024, while female employment increased from 43 percent to 48 percent, and the share of women in management rose from 16 percent to 20 percent. And although board diversity dipped slightly due to the limited number of female investment professionals, GPs are responding by accelerating the recruitment of women – something we at NSSK are actively doing too.

These efforts align with a long-standing internal commitment. We have had an in-house ESG committee for years and have published annual ESG reports since 2021, reinforcing transparency and accountability.

Of course, ESG performance at the GP level is also measurable: according to our 2023-24 ESG report, 74 percent of employees across the portfolio are women, 30 percent of managers are women, and 20 percent of CEOs/COOs are women or minorities. This level of diversity places us well ahead of Japan's national metrics – which, we believe, is directly linked to performance outcomes.

What's new in the latest cycle is how these people metrics can now be operationalised. Aligning investment teams and operating partners on common KPIs – spanning human capital, culture and governance – means that results are trackable across the ownership period. That strong core of governance is what turns good intentions into repeatable, portfolio-wide outcomes.

Q How else can PE firms demonstrate a commitment to social impact?

KM: It starts with proactive engagement within your own sphere of influence. For example, we host women's networking events, co-organise workshops and events with the PRI and

the Operating Principles for Impact Management (OPIM), run ESG learning sessions for professionals and deliver graduate school lectures to develop future sustainability leaders.

These kinds of programmes promote knowledge sharing and create pathways for women and underrepresented groups into leadership roles. The PRI workshops also help Japanese firms align with global responsible investment standards, while the lectures help to embed ESG as part of Japan's long term investment culture.

Beyond these activities, publishing ESG reports can also help to consistently highlight commitments that go beyond compliance. For example, our 2025-26 report showcases instances of regional revitalisation and impact fund platforms that support SMEs facing succession challenges, as well as cases where it has been possible to modernise local industries and create quality

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jobs in places where demographics are most strained. By linking capital to community outcomes, you get stronger employee engagement, improved retention and ultimately better operating leverage.

Q At the portfolio company level, what evidence can be gathered to show whether a given initiative is proving effective?

JT: Job creation and DEI progress are the first indicators we measure. Employees across portfolio companies are part of the broader 'NSSK family', and we know that genuine employee engagement drives sustainable transformation.

Working closely with management teams can enable the introduction of new HR programmes, improved workplace policies, and the creation of cultures where women, non-Japanese talent and other underrepresented groups can thrive. The results are measurable: portfolio companies graduating from our flagship funds over the past six years generated on average a 3.6x MOIC and a 46 percent IRR, supported by job creation, diversity gains and improvements in ESG KPIs.

These outcomes reflect what we describe as 'Alpha-ESG' – the idea that ESG initiatives are directly linked to measurable enterprise value improvement.

Crucially, too, it's about embedding measurement from day one. ESG KPIs covering people, processes and purpose can be tied to board agendas, executive incentives and value-creation plans, with progress being reviewed against clear milestones. This creates the auditability that LPs seek, while giving management teams practical tools to execute.

Q What does the process of enacting ESG-focused organisational change look like in practice?

KM: A good example is Takagi Co

Q How do you see PE's approach to ESG evolving in the future?

JT: Looking ahead, ESG must evolve from a compliance consideration to a key element of value creation, and that evolution is already in motion. Efforts around carbon neutrality, diversity and community contribution will intensify, driven by the need to balance social impact with return generation.

The industry must place greater emphasis on the “S” of ESG, because cultural transformation cannot happen without people. Processes and equipment can reduce emissions, but only people can change beliefs, commitment and organisational culture. That is where the real value creation potential lies.

Tying human capital and culture to valuation, with the same rigour applied to cost, growth and capital allocation, is the blueprint for that shift. As more GPs adopt similarly evidence-based approaches, we expect the market to reward firms that show verifiable links between social outcomes and financial performance.



Ltd, which we invested in back in 2023. Over time, the company has systematically strengthened its support for work-life balance, revamping its child-care leave system in 2021 to encourage male participation. The result was that participation jumped from 3 percent in FY2020 to 95 percent in FY2023. The company's new headquarters even includes an on-site nursery. These initiatives contributed to it winning a Kitakyushu City Women's Empowerment and Work Life Balance Award.

JT: Another example is WEWORLD Group, a language education operator we invested in back in 2021. Female employee and manager ratios are now 70 percent and 50 percent, respectively, as of FY2024. Environmental KPIs have also improved: paper usage has dropped by 5 percent year-on-year, and electricity use has decreased 11 percent compared with FY2019. The company also offers free Japanese language education to refugees, in partnership with the UNHCR and NGOs supporting displaced Ukrainians.

These cases illustrate what we call ‘people-centred transformation’. The idea is to start with workforce well-being, embed inclusive policies, and codify the gains through governance and operating routines. That is how social outcomes compound into productivity, brand strength and ultimately valuation. Placed within a broader portfolio context, these stories can also help LPs to see how similar levers can be deployed across sectors.

Q Where does this interest in ESG and social impact come from? What's the underlying philosophy?

JT: ESG is not just a risk mitigation framework – it's a driver of corporate value creation. In our case, our ESG policies and KPIs have been explicitly designed to enhance the intrinsic value of each business we invest in, and that's why we introduced a methodology linking ESG improvements directly to valuation impact.

From the beginning, we have operated with a mission grounded in doing what is right as human beings. Our guiding belief remains that enhancing the welfare and happiness of all stakeholders – employees, management, customers, suppliers and communities – is the true catalyst for superior returns over the long term. That has produced a strong track record, including being awarded PEI Firm of the Year in Japan in 2017, 2018, 2020, 2022 and 2023, and receiving Operational Excellence awards in 2020 and 2021.

We have recently reaffirmed this philosophy by building a clearer operating system around it. By codifying how people, culture and community outcomes ladder up to enterprise value – and by reporting them consistently – PE can demonstrate that social impact and superior returns are mutually reinforcing, not mutually exclusive. ■

Jun Tsusaka is the CEO of NSSK and chairman of its ESG committee, and Kiyomi Matsuda is the firm's finance director and ESG leader